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Date Sent: November 10, 1960

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FROM: Embassy TOKYO
TO: SECRETARY OF STATE
NO: G-543
Ref: Embtel 1343

Following are texts of letter and note referring to proposed Japanese Government crude oil import regulations promised in refuel. As indicated, the Ambassador personally handed the letter to Foreign Minister KOHAMA, who stated that he would send copies of the letter and the note to Minister of Trade and Industry ISHII, and Finance Minister MIYATA.

In his conversation with the Foreign Minister, the Ambassador emphasized that he had written a personal letter to him on this matter in view of its importance to the contribution of close United States-Japan economic relations.

BEGIN QUOTE...

PERSONAL

Tokyo, November 5, 1960

Dear Mr. Minister:

I am writing you this little personal note about a matter which gives me grave concern because it could have a most serious adverse effect on trade relations between Japan and the United States and particularly on Japanese exports to the United States. The matter relates to the proposed method of handling the importation of Arabian Oil Company petroleum. My Government has examined the proposals which were informally given to us by the Foreign Ministry and feels very strongly that they not only discriminate against American oil companies which are engaged in the importation of petroleum products into Japan but also violate Article XII, 4 and Article XIV, 5 of the Treaty of Friendship, Commerce and Navigation.

As you know, since I have been Ambassador to Japan I have devoted more time to Japanese-American trade relations and problems than to any other subject. I have talked to countless Americans--members of Congress, industrialists, businessmen, etc.--and I think as a result of the efforts of my Government and the Embassy there is a much greater understanding of the fact that Japan must trade to live. Certainly, the phenomenal increase in Japan's exports to the United States during the past few years, resulting from the very liberal trade policy which the United States has pursued, demonstrates clearly and dramatically that United States policy has been to encourage the healthy growth of Japanese exports to the

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United States. However, basic to this United States policy is the principle of reciprocity and the belief that liberal trade policies must be a two-way street and that Japan on its part must avoid discriminations against American trade if it is to benefit from liberal trade policies on the part of the United States.

On my recent trip to the United States a considerable number of political and business leaders including representatives of United States oil companies asked me to meet with them in New York and Washington to discuss Japanese - American trade. While they were understanding of Japan's need to trade they emphasized repeatedly that their ability to assist Japan depended on the elimination of Japanese discrimination against American trade. The oil companies expressed forcefully to me and to the State Department that they were deeply concerned that Japan might reverse its policy of trade liberalization and admit Arabian Oil Company crude oil in a manner which would discriminate against American suppliers. I attempted at that time to reassure them on the basis of various assurances I had been given that Japan would not discriminate against American suppliers, that its petroleum policy would not run counter to the general program of trade liberalization.

It now appears, however, that there will in effect be very serious discrimination against American and other foreign suppliers of petroleum. I cannot emphasize how important it is to handle the importations of Arabian Oil Company petroleum in a non-discriminatory way if grave consequences to Japan's trade with the United States are to be avoided. We and the American oil companies fully understand, I believe, the importance that Japan attaches to having Arabian Oil Company crude oil enter Japan. It is essential, however, that it be in a non-discriminatory way and I believe that American oil companies would be prepared to discuss and suggest possible procedures which would facilitate the entrance of such crude oil into Japan and do so on a non-discriminatory basis. I have always felt, as you know, that when there are difficult problems to be faced between friends the best thing to do is to sit down quietly and talk the matter over since this develops greater understanding on both sides and generally leads to solutions with which both parties can live. In this case I would like to express the personal hope that the responsible Japanese officials will be willing to sit down and discuss the question with representatives of the American oil companies in Japan in order to avoid creating further serious problems for Japan's exports to my country. Accordingly, I earnestly hope you will feel that it would be worthwhile to bring this matter to the urgent attention of the Prime Minister, Minister Ishii, and Minister Matsu.

In conclusion, let me say again that my basic and most fundamental interest in this matter is to see it handled so that Japanese-American trade will not be impaired and will continue to expand on a healthy and sound basis.

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With every good wish and warm personal regards,

Sincerely,

Douglas MacArthur II

His Excellency
Zentaro Kosaka,
Minister of Foreign Affairs,
Tokyo.

END QUOTE.

BROIN QUOTE:

No. 802

The Embassy of the United States of America refers to the new formula for petroleum imports which the Government of Japan indicated it plans to introduce in the second half of the present fiscal year and has been instructed by the Government of the United States to inform the Ministry of Foreign Affairs most urgently as follows:

The Government of the United States of America views with concern the new proposal which appears to constitute a serious departure from normal trade principles and practices and to violate the general principle of non-discrimination. It is of the opinion that the proposed new formula for petroleum imports contemplated by the Government of Japan would establish a dangerous precedent which could have serious adverse effects on world trade in petroleum and other commodities and which would raise serious doubts as to the future of Japan's trade policy, rendering more difficult efforts to assure Japan non-discriminatory treatment for its exports to other countries. Furthermore, the method contemplated by the Government of Japan to absorb the Arabian Oil Company crude oil appears to run counter to the expressed intention of the Government of Japan to liberalize imports and in fact would appear to make the eventual liberalization of petroleum imports more difficult.

The Government of the United States of America has requested the Embassy to express particular concern over the fact that the Government of Japan's proposal contemplates treating oil produced in the Persian Gulf by the Arabian Oil Company as domestic or "yen" oil solely on the basis that it is produced by a Japanese company. This is not only in contrast to general trade practices, but constitutes a serious discrimination against American companies producing

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oil in the same area. The serious implications of such a policy of discrimination for trade in general should be apparent to a country such as Japan which is heavily dependent on international trade for its wellbeing.

In the view of the Government of the United States of America the decision to classify Arabian Oil Company petroleum as "yen" oil is not justified on balance of payments grounds, particularly since the foreign exchange position of the Government of Japan is now at a record level. In addition, the foreign exchange content of the Arabian Oil Company petroleum is substantial and is likely to remain high in the future.

Although the proposed formula of the Government of Japan calls for the price of the petroleum to be determined in commercial negotiations, in fact the formula grants specially favorable treatment to Arabian Oil Company crude oil by removing it from effective competition with other imported crude oils and thus reducing the bargaining power of the importers of petroleum. The preferential treatment received by the Arabian Oil Company thus exploits the investments in Japan made by American oil companies to their disadvantage.

Handwritten: This is a copy of the original document.
The Embassy has also been requested to bring to the attention of the Government of Japan, the view of the Government of the United States of America that the proposal to restrict sales of crude oil for yen to "exchange residents" is also inconsistent with the provisions of Article XII, Paragraph 4 and Article XIV, Paragraph 5 of the Treaty of Friendship, Commerce, and Navigation which provides for United States suppliers to be given national treatment.

With the foregoing in mind, it is the earnest hope of the Government of the United States that the Government of Japan will review its proposed formula with a view to adopting a formula which will permit Arabian Oil Company crude oil to enter Japan on a competitive price basis under the same system of foreign exchange allocations as provided for all imported oils, and not on the basis of preferential and discriminatory treatment.

Embassy of the United States of America,
Tokyo, November 5, 1960.

END QUOTE.

MACARTHUR

Handwritten: RWD
EJH:hty:blb
November 9, 1960

Handwritten: 11/7
ECON:FIT:res:ise
DCH: MacArthur

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